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GENERAL

1. Ceylonese firm offers to buy Iranian oil for Communist China:

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[Redacted]

Prime Minister Mossadeq on 13 March instructed the American Embassy's Iranian adviser, Saleh, to inform Ambassador Henderson that a Ceylonese firm had offered to assist in purchasing Iranian oil for the Chinese Communist Government. The Prime Minister stated that it would be difficult for him to refuse oil to anyone if the United States continues to support the British embargo.

Comment: It may be that the Prime Minister desires to use this offer as a means of exerting pressure on the United States. Mossadeq has previously indicated, however, his willingness to sell oil to "all comers."

Although China would probably be interested in obtaining Iranian oil, the securing of tankers would be a major problem. Orbit tankers are now fully employed and Western shipping would be reluctant to carry Iranian oil to Communist China.

FAR EAST

2. Comment on fall of Yoshida government:

The fall of the Yoshida government on 14 March culminates five months of instability since the October elections. The elections called for 19 April should return another predominantly conservative Diet. Although there will undoubtedly be some shift in popular support toward the Socialists, the shortness of campaign time and the weak financial position of the opposition will tend to favor the incumbents.

A complete realignment of Japanese conservative forces may result in a coalition government headed either by Shigemitsu of the Progressive Party or Hatoyama of the Liberals. A government under either of these men would still continue Japan's Western orientation. It would be less likely, however, to resist current pressures for closer economic relations with Communist China, and it might seek to de-emphasize Japan's close alliance with the United States.

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SOUTH ASIA

4. Afghanistan apparently to proceed with oil development near Soviet frontier:

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The American Embassy in Kabul believes that Afghanistan is considering proceeding with oil development in the north in spite of Soviet protests. The Afghan Government has formally requested the assistance of the United Nations and the International Labor Organization in training 40 Afghan oil technicians in the Near East, according to a United Nations Technical Assistance Mission in Afghanistan.

Comment: Last September the Afghan Government rejected a Soviet note protesting oil drilling preparations by a French firm in northern Afghanistan, but nevertheless decided not to proceed with operations. The British Ambassador in Kabul reported in February an

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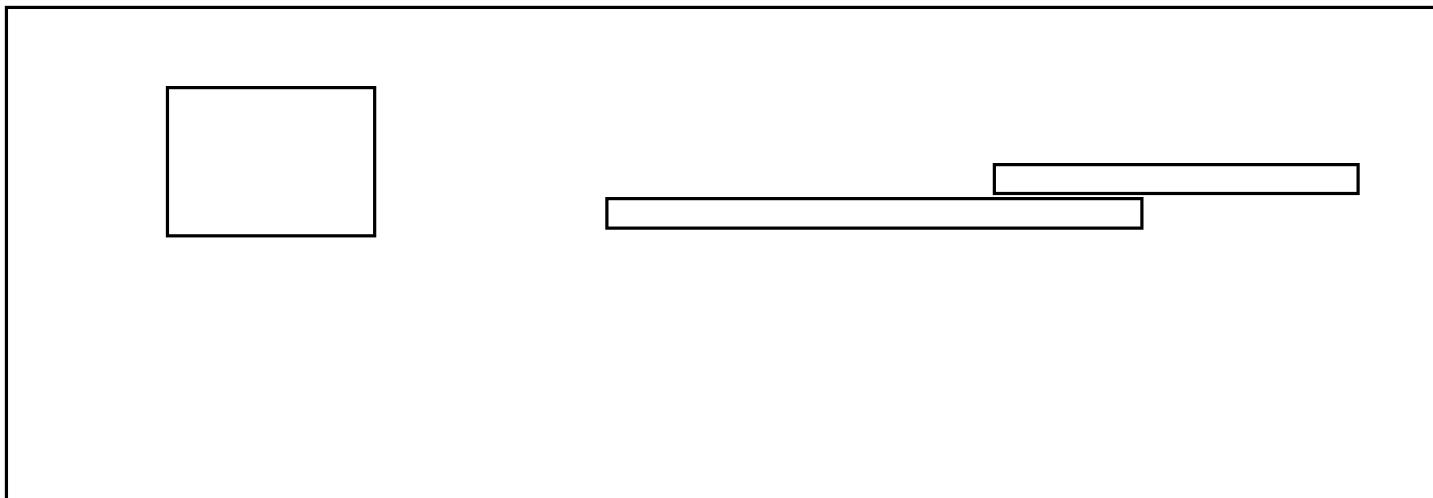
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Afghan cabinet decision to continue oil exploration "after an appropriate cooling-off period." The government may feel that if it employs its own nationals there will be no objection from the Soviet Union.

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NEAR EAST - AFRICA



6. British studying Arab Pact as basis for area defense:

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The British Foreign Office is studying the possibility of basing Middle East defense on the Arab League Collective Security Pact. An official indicated that the Foreign Office believes it important to retain a flexible approach on regional defense arrangements.

At the same time, however, the British Ambassador in Ankara has received instructions to inform the Turkish Government that Britain intends to discuss MEDO with Egypt without further consultations with Turkey.

Comment: Egypt's army regime has given increasing indications recently of a preference for a regional defense arrangement less likely than MEDO to be dominated by Western nations.

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The Turkish Government has already made overtures to Iraq to support the foundation of a defense organization without Egypt, arguing that Egypt as a North African power might not be essential to Middle East security.

EASTERN EUROPE

7. Comment on the death of President Gottwald of Czechoslovakia:

The death of Klement Gottwalt on 14 March will not affect the stability of the Communist regime or its relationship with the USSR, and his successor is not expected to have any trouble maintaining control of the party.

Premier Antonin Zapotocky, a veteran Communist and one of the founders of the Czech Communist Party, is the most logical successor. His power as premier was significantly enhanced in January by the concentration of government control in an inner cabinet of nine deputy premiers under his chairmanship. Zapotocky, who has been an outspoken exponent of vigilance and discipline and increased industrial production, can be expected to follow the policies of Gottwald.

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